Meeting Minutes
Executive Steering Committee
Corporate Automation Plan-Phase 2
November 4, 2003

Industry Attendees: Bob O'Brien, Joe Lubenow, Joyce McGarvy, Val Scansaroli, Vince Giuliano, Anita Pursley

Postal Attendees: John Rapp, Tom Day, Paul Vogel, Fred Hintenach, Charles Bravo, Skip McGill

The meeting began at 8:00 a.m. with a discussion about the role of the steering committee.

Mr. Rapp stated that he would like to see the steering committee function as the "traffic controller" that determines when work teams are needed and ensures there is no duplication of effort across work teams. In addition, the steering committee should play a role in maintaining communications with the industry about USPS automation plans.

Mr. O'Brien stated that USPS had come out very early in the process to discuss the flats strategy and delivery vision, and the industry was anxious to understand what it means to them. Industry wants a successful CAP that allows businesses to adapt to change easily. Mr. Scansaroli wanted the steering committee to help clear up misunderstandings within the industry and keep everyone informed about the status of development. This will help to reassure the industry and avoid misinterpretation of information.

Discussion turned to the scope that the steering committee would want to address initially - the entire Corporate Automation Plan or limit it to just the flats strategy and delivery vision. Mr. Scansaroli stated that is would be useful to understand the "big picture" first and could help industry with its planning for capital investments. Mr. Rapp indicated that USPS could prepare a presentation of the Corporate Automation Plan for the next steering committee meeting.

Mr. Scansaroli asked about how the impacts of the NIA project would affect the planning for DPP and FSS. Mr. Rapp indicated that NIA and DPP/FSS have little impact on each other. NIA is a network-modeling tool that identifies distribution network changes and where distribution work occurs along with associated transportation changes. DPP and FSS would directly support delivery units by bringing all of the mail together for the final sort before delivery and would probably occur at the destination plant or at a facility close to the destination unit.

Mr. Giuliano stated there are four key factors in a business relationship that support affordability and marketability: 1) consumer response rates; 2) lead time; 3) postage rates; and 4) capitalization. He also indicated that the industry needed to know the details about the DPP and FSS concepts as soon as possible.

Mr. Rapp stated that USPS understands the industry issues and that it will take some time to develop the answers to the issues. The Engineering R&D effort will answer the key questions about the size, capacity and number of machines that would be needed to support a DPP or FSS solution. He also mentioned that USPS is currently engaged in qualitative market research to understand how consumers feel about the concept of receiving "packaged" mail. USPS will share the results of this research with the industry when it is complete. In addition, USPS is planning to perform quantitative market research to determine if there is an impact on advertising response rates for packaged mail.

Mr. Day provided the status of the R&D activity. USPS received proposals from vendors in September 2003. Evaluation of the proposals will result in two R&D contracts for FSS and up to six R&D contracts for DPP. The R&D contracts initially will be for Concept and Simulation work that involves development of detailed machine and operating concepts and computer simulation to prove performance under simulated operating scenarios. The planned timeline for Concept and Simulation work is November 2003 to June 2004. This is a critical step as key characteristics and performance assumptions are developed. Decisions on whether to build prototype systems would be made after this contract phase.

FSS development should not be as challenging as DPP development as the technology for sequencing flats is more advanced. Both Royal Mail and Japan Post have machines that sequence flats.

A FSS simulation test was performed at Colonial Heights, VA in August and September 2003. All flats volume for the city carriers was sorted in delivery sequence order using a modified AFSM 100. Carriers took the sequenced bundles of flats directly to the street. The test was highly successful. USPS was able to sort ADVO and Richmond Post advertising inserts along with other flat mail.

Bob O'Brien asked about how long it might take to get to a decision point on a prototype machine. Tom Day thought it would take about two years depending on the components used by the vendors. Engineering works closely with Supply Chain Management and employs acquisition strategies to encourage vendors to work with each other to develop systems using the best components and features. The final hurdle comes down to determining if it is a sound economic investment based on the cost the vendor charges for equipment.

Tom Day discussed the approach to funding R&D and stated that USPS does not fund the full cost of R&D. The vendors self fund a significant portion of the costs to develop new technology. However, for large projects like DPP/FSS that have greater cost and risk, USPS shares a portion of the R&D development costs with the vendors through R&D contracts. In the past, USPS has found that even though a R&D project may not make it into production, new technological advances are discovered through the R&D process that can benefit future projects.

Bob O'Brien brought the group back to the question of how the steering committee would work in the future. After discussion, the committee agreed to the following goal statement and objectives for the steering committee:

Goal: Assist in developing an automation strategy that meets the needs of the Postal Service and its customers.

Objectives:

- Facilitate communications of the automation strategy to the mailing industry.
- Ensure maximum mailing industry input.
- Coordinate formulation of necessary MTAC work groups.

The group decided that before the next MTAC meeting, the steering committee would meet to receive a presentation on the CAP Phase 2 to improve their knowledge of the overall plan. Mr. Rapp would also give the presentation at the February MTAC meeting. It was suggested that the steering committee could organize around the central issues that came out of the Flats Summit: 1) mail piece creativity and design flexibility; 2) rate and work share issues; 3) delivery day, CET, and entry point impacts; and 4) advertising response rates. The steering committee would stay informed about developments around these key issues and form MTAC work groups as the need arises. Minutes from the meetings will be posted on the MTAC website.

The meeting concluded at 10:00 a.m.